



City of Riverside, California
Personnel Policy and Procedure Manual

Approved:

Human Resources Director

City Manager

Number: VI-29 Effective Date: 07/00

SUBJECT: SECTION 125 PLAN

PURPOSE:

To define the City of Riverside's Section 125 Plan for uniformity of interpretation and application.

POLICY:

All employees, except temporary (non-benefitted) employees, may participate in the Section 125 Plan offered by the City.

1. **Definition**

As defined under Section 125 of the Internal Revenue Code (IRC)¹, employees may be allowed to redirect a portion of their salaries to pay for certain allowed expenses on a pre-tax basis. This allows employees to reduce their taxable income.

2. **Enrollment**

Enrollment forms must be submitted within the first 30 days of employment for new hires. Benefits are effective the first of the month following 30 days of employment. If the 30-day deadline is missed, enrollments may not take place until the next Open Enrollment period. Current City employees may enroll during the Open Enrollment period only.

Current participants must re-enroll each year. If enrollment forms are not received by Human Resources, deductions from the employee's paycheck will stop.

Participants have three options for pre-tax deductions:

- A. IRC Sections 105 and 106 allow for employee paid premiums.
- B. IRC Section 105(h) allows for out-of-pocket health and dental expenses, including co-payments and deductibles, which are not covered by insurance. The maximum allowable reimbursement under the I.R.S. for this option per calendar year is unlimited. Reimbursements are prepared by the plan administrator.

¹ The actual citation for the Internal Revenue Code Section 125 is "Title 26 USC 125".

C. IRC Section 129 allows for child and dependent care expenses for qualified individuals such as:

1. Children under age 13 who qualify as a dependent for income tax purposes.
2. A spouse who is physically or mentally unable to care for themselves.
3. Individuals unable to care for themselves and who qualify as a dependent for income tax purposes.
4. Service providers must be over 18 years of age and cannot be an individual for whom a personal tax exemption may be claimed. The maximum allowable reimbursement under the IRC for this option is \$5,000 per calendar year (\$2,500 if the participant is married and filing a separate income tax return), but no more than the lesser of earned income of the employee or spouse. Reimbursements are prepared by the plan administrator.

Employees may participate in any one or combination of the above expense categories. For those employees who choose Option A only, the administration fee is \$0.50/pay period. For any other option or combination of options, the administration fee is \$2.00/pay period. All fees are automatically deducted from the employee's paycheck.

The IRC requires that amounts not reimbursed to the participant will be forfeited (referred to as a "use it or lose it" plan). Employees should enroll only after careful review of the plan and calculation of estimated costs.

3. **Changes**

Under the IRC, employees may change or revoke contributions only if the employee has a material change in economic circumstances, such as change in income, marital status, birth or adoption of a child, etc. Otherwise, employees can make changes during the next open enrollment period.

4. **Employee Insurance Committee**

A committee consisting of representatives from the various bargaining units will meet periodically to discuss employee insurance issues. This committee makes recommendations to the City Manager regarding changing the insurance policies, resolving employee concerns and/or problems, and other issues as they arise.

PROCEDURE:

Responsibility	Action
Employee	<ol style="list-style-type: none">1. Completes all necessary paperwork to enroll within 30 days of hire or during Open Enrollment and submits to Human Resources.2. Submits reimbursement claims to the plan administrator.
Human Resources	<ol style="list-style-type: none">3. Processes all paperwork as necessary for enrollments and changes.4. Schedules periodic Employee Insurance Committee meetings.5. Schedules Open Enrollment period.
Payroll	<ol style="list-style-type: none">6. Processes deduction requests and submits funds to the Plan Administrator.

Disclaimer: This policy is for internal processes only. Should a discrepancy exist between this document and the Section 125 Plan Document and Regulations, the CalPERS regulations will prevail. Should a discrepancy exist between this document and Federal or State Law, the Federal or State Law will prevail.